

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

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FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 5109

S E C R E T SECTION 1 OF 2 ROME 0570

EXDIS

E.O. 11652: GDS

TAGS: PINT, IT

SUBJECT: ITALIAN DILEMMA: EARLY ELECTIONS VERSUS NEW  
GOVERNMENT

1. A MAJOR ISSUE THAT IS PREOCCUPYING POLITICIANS OF ALL PARTIES (EXCEPT PERHAPS THE PCI) IS THE RELATIVE ADVANTAGE BETWEEN EARLY ELECTIONS AND A NEW GOVERNMENT THAT WOULD LAST AT LEAST UNTIL FALL IF NOT UNTIL 1 MAY 1977 (THE DATE BY WHICH SUCH ELECTIONS MUST BE HELD). THE LARGE NUMBER OF UNKNOWN AND VARIABLES MAKES IT EXTREMELY DIFFICULT TO REACH A FIRM CONCLUSION ON THIS ISSUE. THE FOLLOWING PARAGRAPHS OUTLINE THE ARGUMENTS IN FAVOR OF EACH OF THE TWO ALTERNATIVES.

2. EARLY ELECTIONS: ONE OF THE BASIC ARGUMENTS FOR EARLY ELECTIONS TURNS ON AN EVALUATION OF THE SOCIALISTS (PSI). THOSE WHO ARGUE FOR EARLY ELECTIONS WILL SAY THAT THE PSI WILL NOT CHANGE, THAT EVEN IF THE CHRISTIAN DEMOCRATS (DC) PAY THE HIGH PRICE THAT THE PSI MAY DEMAND TO COME BACK INTO THE GOVERNMENT, THE PSI WILL NOT FULLY COMMIT ITSELF TO CARRYING OUT THE GOVERNMENT'S PROGRAM BUT WILL CONTINUE TO TRY TO KEEP ONE FOOT IN EACH CAMP, I.E., TO BE PART OF THE GOVERNMENT FOR PROGRAM DEMANDS AND PATRONAGE, AND LEADER OF THE OPPOSITION LEFT FOR ELECTORAL PURPOSES. SUCH BEHAVIOR WOULD HAMSTRING ANY NEW GOVERNMENT, JUST AS IT HAS DONE IN THE PAST, AND THE DC WOULD BE LEFT, ONE YEAR FROM NOW, WITH FULL RESPONSIBILITY FOR ANOTHER YEAR OF DO-NOTHING GOVERNMENT.

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WHILE THE PSI IS, IN BOTH THE SHORT AND MEDIUM TERM, ESSEN-

TIAL TO THE FORMATION OF A DEMOCRATIC GOVERNMENT IN ITALY, IN ITS PRESENT STATE OF MIND IT CANNOT BE EXPECTED TO COOPERATE FULLY WITH THE OTHER DEMOCRATIC PARTIES, FOR IT SEES SUCH COOPERATION AS INIMICAL TO THE SUCCESS OF ITS SELF-APPOINTED ROLE AS LEADER OF THE ITALIAN "LEFT". ONLY AN ELECTORAL TEST, WHICH CLEARLY FAILS TO LIVE UP TO THEIR EXAGGERATED EXPECTATIONS, HAS ANY CHANCE OF PERSUADING THEM THAT THEIR FUTURE LIES WITH THE DEMOCRATIC PARTIES AND NOT WITH THE LEFT, WHICH WILL CONTINUE TO BE LED BY THE COMMUNISTS (PCI).

3. ANOTHER IMPORTANT ISSUE THAT SHARPLY DIVIDES THE SOCIALISTS AND THE DC IS ABORTION. IT WILL BE VERY DIFFICULT FOR THE PSI TO CLIMB DOWN ON THIS ISSUE, AND EQUALLY DIFFICULT FOR THE DC TO FACE EITHER A PARLIAMENTARY TEST OR A REFERENDUM BEFORE THE NEXT PARLIAMENTARY ELECTIONS. EARLY ELECTIONS WOULD HAVE THE VIRTUE OF PUTTING THIS IMPORTANT, EMOTIONAL ISSUE OFF FOR BOTH PARTIES.

4. APART FROM THE BASIC PROBLEMS DISCUSSED IN THE PRECEDING PARAGRAPHS, PROPONENTS OF EARLY ELECTIONS POINT OUT THAT AT THE MOMENT THE PSI IS ISOLATED WITH NO FIRM SUPPORT FOR ITS POSITION ANYWHERE. AS A RESULT, THEY WILL CLEARLY HAVE TO ACCEPT THE RESPONSIBILITY FOR EARLY ELECTIONS AT A TIME WHEN THE COUNTRY IS IN THE MIDDLE OF SERIOUS ECONOMIC PROBLEMS FOR WHICH THE PSI HAS NO READY ANSWER. ACCORDINGLY, THE PSI WILL MAKE A RELATIVELY WEAK OPPONENT AND COMPETITOR FOR THE DC. IN ADDITION, IT IS ARGUED, ZACCAGNINI HAS GIVEN THE PARTY THE BEGINNING OF A NEW AND MORE ATTRACTIVE PUBLIC IMAGE. THE POSITIVE EFFECTS OF HIS EFFORTS WILL DOUBTLESS BE DILUTED IN THE 17 MONTHS BETWEEN NOW AND MAY 1977, ONCE THE DC HAS HAD ITS CONGRESS AND THE PUBLIC HAS HAD A CHANCE TO SEE WHAT THE "NEW" DC PARTY REALLY LOOKS LIKE. FINALLY, FROM A POLITICAL POINT OF VIEW, IT IS ARGUED THAT THE PCI WOULD DO RELATIVELY LESS WELL NOW AND THE DC RELATIVELY BETTER THAN IN 1977. THE PCI IS EXPECTED TO DO WELL AT EITHER TIME, BUT SOME ARGUE THAT AT PRESENT THERE IS SOME FEAR REACTION TO THE PCI'S GAINS LAST JUNE 15 AND THAT THIS REACTION WILL ATTENUATE WITH THE PASSAGE OF TIME SO LONG AS THE PCI CONTINUES ITS PRESENT POLICY OF SWEET REASONABLENESS. IN ADDITION, THERE WILL BE

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MORE NEW VOTERS ON THE ROLLS THE LONGER ELECTIONS ARE PUT OFF, AND A VERY LARGE PERCENTAGE OF THEM ARE EXPECTED TO VOTE FOR THE PCI. ON THE OTHER HAND, IT IS ARGUED, THE DC WILL DO BETTER NOW THAN IN 1977 IN PART BECAUSE THE PSI WILL BE WEAK, IN PART BECAUSE OF THE ANTI-PCI REACTION, HOWEVER, SLIGHT, AND IN PART BECAUSE OF THE BETTER IMAGE THAT ZACCAGNINI HAS BEEN CREATING. ALL OF THESE FACTORS ARE TENDING TO CREATE A BANDWAGON IN FAVOR OF EARLY ELECTIONS AMONG SOME ELEMENTS OF

THE DC.

5. FROM AN ECONOMIC POINT OF VIEW, PROPONENTS OF EARLY ELECTIONS ARGUE THAT, WHILE THE ECONOMY MAY BE IN THE MIDST OF AN UPSWING BY MAY 1977, WITH HIGHER LEVELS OF PRODUCTION AND LOWER LEVELS OF UNEMPLOYMENT, THE IMPROVEMENTS WILL BE INSUFFICIENTLY PERCEPTIBLE TO THE VOTER. IN ADDITION, THEY ARGUE FORCEFULLY (AS DOES LA MALFA, FOR EXAMPLE) THAT, FOR ANY NEW GOVERNMENT, THE PSI CAN BE EXPECTED TO DEMAND PROGRAM CHANGES THAT WOULD GREATLY INCREASE PUBLIC SPENDING AND THE LEVEL OF WAGE SETTLEMENTS. THE RESULTING SHARP INFLATION WOULD BE FELT BY MAY 1977. THE DC, AS THE DOMINANT PARTY IN THE GOVERNMENT, WOULD REAP THE CONSEQUENCES. COMMENT: WHILE THERE IS SOME TRUTH TO THIS ARGUMENT, IF ONE ACCEPTS THE BASIC ASSUMPTION, IT IS TO BE DOUBTED THAT THE DC WOULD BE SO FOOLISH AS TO ACCEPT DEMANDS FOR PROGRAM CHANGES THAT WOULD HAVE SUCH NEGATIVE RESULTS FOR THE COUNTRY AND FOR THE DC.

6. A NEW GOVERNMENT: THE ARGUMENTS IN FAVOR OF A NEW GOVERNMENT ARE LESS CLEAR AND CRISP, PRIMARILY BECAUSE THE NATURE OF A NEW GOVERNMENT IS OBVIOUSLY UNKNOWN AND THE VARIABLES ARE ENDLESS. THE ARGUMENTS RECORDED ARE MADE ON THE ASSUMPTION THAT THERE WILL BE NO SIGNIFICANT OPENING TO THE PCI IN ANY GOVERNMENTAL FORMULA THAT MIGHT BE WORKED OUT. HAVING SAID THAT, THE VARIABLES ARE STILL GREAT, ESPECIALLY WITH REGARD TO THE POSITIONS AND PROGRAM CHANGES THAT THE PSI MAY INSIST UPON.

7. THE BASIC POLITICAL ARGUMENTS FOR PREFERRING A NEW GOVERNMENT TO EARLY ELECTIONS ARE THE DISORGANIZATION IN THE DC

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AND HOPES OF PULLING THE PSI BACK FROM THEIR RECENT LURCH TO THE LEFT. WITHIN THE DC, THE PROCESS OF RENEWAL AND OR ORGANIZATIONAL AND GENERATIONAL CHANGE HAS JUST GOTTEN STARTED. UNTIL THE RECENT PSI CHALLENGE, THE PARTY HAS BEEN ANYTHING BUT UNITED, AND MOST AGREE THAT IT NEEDS ITS FORTHCOMING CONGRESS TO ESTABLISH A NEW PARTY LINE AND TIME TO IMPLEMENT SUCH RENEWAL AS CAN BE AGREED UPON. WHILE EARLY ELECTIONS WOULD GIVE THE DC THE APPEARANCE OF UNITY (HISTORICALLY, THE DC UNITES WELL AT ELECTION TIME), SUCH TEMPORARY UNITY WOULD SIMPLY SERVE TO PROLONG THE POLITICAL LIFE OF MANY MEMBERS OF THE PARTY'S OLD GUARD.

8. WITH REGARD TO THE PSI, IT IS ARGUED THAT THE PSI WILL OBVIOUSLY BE ESSENTIAL TO THE FORMATION OF DEMOCRATIC GOVERNMENTS IN ITALY FOR THE FORESEEABLE FUTURE. THEREFORE, IT IS OF THE GREATEST IMPORTANCE TO ATTEMPT TO PULL THEM INTO CO-OPERATION WITH THE DEMOCRATIC PARTIES. A NEW GOVERNMENT WOULD SERVE THIS PURPOSE, WHEREAS EARLY ELECTIONS WOULD TEND TO DRIVE THE PSI AWAY FROM THE DC INTO A POSITION OF ISOLATION ON THE LEFT, WITH NOWHERE TO GO BUT TO AN ALLIANCE WITH THE PCI. THE LIMITATIONS ON THIS ARGUMENT RELATE BASICALLY TO THE POSITIONS AND PROGRAM CHANGES THAT THE PSI WOULD DEMAND AS THE PRICE OF RETURNING TO THE GOVERNMENT. THERE IS TALK, FOR EXAMPLE, THAT THE PSI WOULD DEMAND EITHER INTERIOR OR DEFENSE, PLUS TWO OF THE IMPORTANT ECONOMIC MINISTRIES, AS WELL AS IMPORTANT PROGRAM CHANGES, PARTICULARLY IN THE ECONOMIC AREA. THE DC WOULD PROBABLY BE UNWILLING TO MEET SUCH DEMANDS, BUT THERE IS A LOT OF ROOM FOR NEGOTIATION BETWEEN THEM AND ZERO.

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JUST WHAT THE MINIMUM PSI "PRICE" IS NO ONE KNOWS, PROBABLY INCLUDING THE PSI AT THIS POINT, BUT THERE ARE INDICATIONS THAT THE PSI'S CURRENT ISOLATION MAY MAKE THE PRICE MUCH LOWER THAN CURRENT PUBLIC POSTURING WOULD SUGGEST. NEVERTHELESS, IT IS OBVIOUSLY IMPORTANT TO HAVE AT LEAST AN APPROXIMATE ANSWER TO THAT QUESTION TO MAKE ANY PREDICTION ON THE RELATIVE ADVANTAGE BETWEEN EARLY ELECTIONS AND A NEW GOVERNMENT.

9. THE ECONOMIC SITUATION WOULD ALSO SEEM TO ARGUE FOR POSTPONING ELECTIONS AS LONG AS POSSIBLE. AN IMPROVEMENT IN THE ECONOMIC SITUATION DURING 1976 IS EXPECTED (ROME 0365), AND, EVEN THOUGH IT MAY NOT BE DRAMATIC, IT CANNOT BUT HELP THE DC TO A CERTAIN EXTENT. SOME ARGUE THAT A PROLONGED CRISIS (OR THE TWO - THREE MONTHS THAT WILL BE REQUIRED TO ORGANIZE EARLY ELECTIONS) WOULD SERIOUSLY INHIBIT GOVERNMENT ACTION ON THE MEDIUM TERM PLAN AND EXACERBATE EMPLOYMENT PROBLEMS, TO THE DETRIMENT OF THE COUNTRY AND OF THE DC'S VOTE-GETTING ABILITY IN ELECTIONS WHENEVER THEY ARE HELD. HOWEVER, SINCE THE

MEDIUM TERM PLAN (ROME 18950) RELATES BASICALLY TO LONGER TERM PROBLEMS, AND A DELAY OF A FEW WEEKS WOULD NOT HAVE ANY SIGNIFICANT EFFECT ON VOTER PERCEPTIONS OF THE DC'S ECONOMIC PERFORMANCE. MOREOVER, THE ANTI-RECESSION PACKAGE ENACTED LAST AUGUST (ROME 11528 AND 15700) HAS ALREADY GIVEN THE GOVERNMENT THE AUTHORITY AND FUNDS NEEDED TO DEAL WITH IMMEDIATE ECONOMIC PROBLEMS.

10. COMMENT: GIVEN THE BASIC FACTS OF THE ITALIAN POLITICAL SCENE, THE ISSUE DESCRIBED ABOVE CAN BE STATED IN TERMS OF WHICH ALTERNATIVE IS MOST LIKELY TO KEEP THE PCI OUT OF THE ITALIAN GOVERNMENT AND TO ASSIST OR LIMIT THE DAMAGE TO THE DC. UNFORTUNATELY, SINCE THE BASIC DILEMMAS AND PROBLEMS OF ITALIAN POLITICS REMAIN SUBSTANTIALLY UNCHANGED, NEITHER ALTERNATIVE CAN BE THE SOURCE OF MUCH OPTIMISM. NEVERTHELESS, FOR BOTH POLITICAL AND ECONOMIC REASONS, IT WOULD APPEAR AT THE PRESENT TIME THAT THE BALANCE OF RELATIVE ADVANTAGE TIPS IN FAVOR OF A PREFERENCE FOR POSTPONING ELECTIONS AS LONG AS POSSIBLE, I.E., UNTIL MAY 1977.

11. TO HOLD EARLY ELECTIONS IN THE IMMEDIATE FUTURE WOULD INVOLVE A GREAT RISK FOR THE DC (AND FOR US INTERESTS). THE PCI'S STRENGTH AND SUPERB ORGANIZATION IS UNIMPAIRED, THE PSI  
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WOULD GO TO ELECTIONS AT A GREAT DISADVANTAGE, WHILE THE DC IS DISORGANIZED AND DISUNITED AND HAS NOT YET CURED ANY OF THE BASIC PROBLEMS THAT HAVE LED TO ITS RECENT DECLINE. IN ADDITION, ITALY IS AT THE MOMENT SOMEWHERE NEAR THE BOTTOM OF ITS CURRENT ECONOMIC RECESSION, A FACTOR THAT WILL HELP THE PCI AND HURT THE DC. EARLY ELECTIONS COULD THEREFORE PRODUCE A STRONG THRUST TOWARD THE "HISTORIC COMPROMISE" IF THEY SHOWED CONTINUED PCI GAINS AND PSI AND DC LOSSES. AT BEST EARLY ELECTIONS ARE NOT LIKELY TO GIVE EITHER THE DC OR THE PSI MORE THAN THEY RECEIVED IN THE JUNE 15 ELECTIONS, A RESULT THAT WOULD GIVE RISE TO CONTINUED INSTABILITY (TO THE DC'S LONG-TERM ELECTORAL DISADVANTAGE) AND THE PROBABILITY OF NEW PARLIAMENTARY ELECTIONS WITHIN A YEAR OR TWO.

12. IN VIEW OF THESE GRAVE RISKS, IT WOULD APPEAR THAT THE DC'S (AND THE USG'S) BEST INTERESTS WILL BE SERVED BY POSTPONING ELECTIONS AND FORMING A NEW GOVERNMENT, IF THAT IS POSSIBLE ON ACCEPTABLE TERMS. BY MAY 1977, IT IS EXPECTED THAT THE GENERAL ECONOMIC AND EMPLOYMENT SITUATIONS WILL HAVE IMPROVED. THE INTERVENING 17 MONTHS WILL GIVE THE DC THE TIME NEEDED TO RENEW, REFURBISH AND REDIRECT THE PARTY AND TO ATTEMPT TO IMPROVE THE IMAGE OF ITS PERFORMANCE IN GOVERNMENT. THIS PROCESS HAS ALREADY BEGUN, BUT HOW FAR IT WILL BE CARRIED, AND WITH WHAT VIGOR, IS ONE OF THE IMPORTANT UNKNOWNNS. IF THE DC DOESN'T SHOW SIGNIFICANT IMPROVEMENT, THE ELECTORAL

RESULTS IN MAY 1977 WILL PROBABLY BE AS BAD, IF NOT WORSE,  
THAN THE WORST THAT CAN BE HYPOTHESIZED FOR ELECTIONS IN THE  
IMMEDIATE FUTURE.

13. FINALLY, IT MUST BE NOTED THAT IT IS OF COURSE POSSIBLE  
THAT THE DC MAY NOT BE ABLE TO FORM A GOVERNMENT ON TERMS  
WHICH IT (OR WE) WOULD REGARD AS ACCEPTABLE. PSI DEMANDS MAY  
BE SO POLITICALLY DISADVANTAGEOUS FOR THE DC THAT IT WILL HAVE  
NO CHOICE BUT TO ACCEPT THE RISK OF EARLY ELECTIONS. VOLPE

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